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Restaurant Business

JULY 20, 1989

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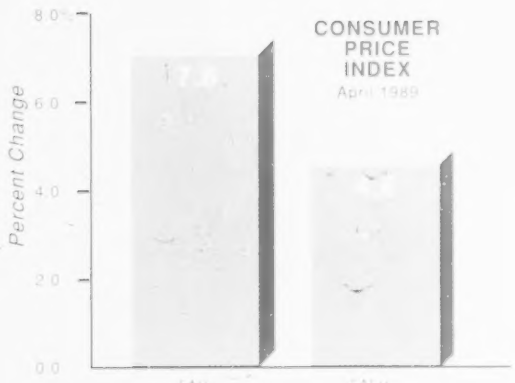
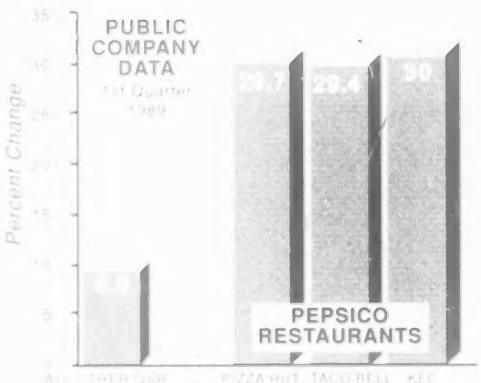


Food At Home Pricier

The Department of Commerce's Consumer Price Index shows that the price of Food At Home (FAH) rose 7.6% last April over the year-ago period. This compares with just a 4.6% rise in prices for Food Away From Home (FAFH).

The rapidly increasing food prices can be partially attributed to the residual effects of last year's drought and prevailing dry conditions in many key agricultural regions. For example, FAH increases were led by a stunning 9.5% rise in fruits and vegetables and an 8.6% rise in cereals and bakery products.



PepsiCo Shines

Among the public restaurant companies tracked by Technomic Inc., PepsiCo's restaurant chains stand out.

The company's three chains—Pizza Hut, Taco Bell, and Kentucky Fried Chicken—notched a combined increase of $230 million in revenues for the first quarter of 1989, the largest gain of any restaurant company. At the same time, revenues for each of the chains increased from 25% to 30% over the year-ago period, well above the public quick-service average of less than 9%.

Midscale: A Cold Winter

According to figures released from the CREST service of NPD Research, total customer expenditure increases for the winter quarter were up 5.0% over the year-ago quarter. This increase was constrained by the midscale segment, in which expenditures increased only 1.3%.

According to Technomic, the relatively sluggish performance of the midscale segment can be attributed, to a great extent, to continued decreases in customer traffic and a decreased ability to pass along price increases to customers.

RESTAURANT BUSINESS

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COVER STORY

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INDUSTRY EVENT

The Seventh **SYMPOSIUM ON AMERICAN CUISINE**, *co-sponsored by* Restaurant Business, *will take place in Santa Fe, NM, Sept. 10-13, 1989.*

Contact: Symposium on American Cuisine, 305 W. Liberty St., Suite 201, Louisville, KY 40202.

REPRINTS, INDEX AVAILABLE

Restaurant Business *now has available specially prepared reprints of the* **1988 RESTAURANT GROWTH INDEX** *and the* **1989 MAJOR FORCES IN FRANCHISING**. *The reprints are available for $5 per copy.*

In addition, Restaurant Business *is now offering its* **1988 EDITORIAL INDEX** *for $25 per copy.*

Direct inquiries to: Editor Peter Berlinski, Restaurant Business, *633 Third Ave., New York, NY 10017.*

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IN THE NEXT ISSUE

COVER STORY

KITCHEN DESIGN

Today's kitchens must address a different set of needs than facilities of the past. Productivity, flexibility, and cost-effectiveness are all more important than ever. In addition, storage needs must adapt to a growing need for more frequent deliveries and a growing panoply of shelf-stable products. In addition to all that, display kitchens are still very much in the picture; kitchen designers must consider both function and form. This article is augmented by case studies of Kentucky Fried Chicken's newest prototype, and the display kitchen featured at four-star-rated Lafayette in New York City.

MARKET SEGMENT REPORT

CASUAL-THEME RESTAURANTS

The casual-theme segment is buffeted by change. Many chains that developed in the 1970s are undergoing revamps in the wake of the aging baby-boom population and the trend towards moderation in drinking. Meanwhile, newer casual chains are carving out solid territory, and the overall outlook for the segment is favorable in today's price-conscious marketplace.

MENU IDEAS

BAKED GOODS

The focus of this month's "Menu Ideas" will be on how to develop and merchandise signature baked goods in a variety of operations. Scott Allmendinger will present ideas for hand-held items such as muffins and stuffed breads for snacking and quick-service occasions; innovative breads for sandwiches; and distinctive breads for bread service.

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TOP 50

In a time when a number of major restaurant chains have had to grow cautiously and watch the bottom line, there are those smaller and medium-size companies that have found their expansion niches. Once again, with the help of Chicago-based consulting firm Technomic Inc., *Restaurant Business* features an exclusive report on the 50 fastest-growing second-tier chains. These lower-profile star performers are ranked in terms of both sales and unit growth. *RB*'s Top 50 listings also include these chains' various concept and growth strategies. *Continued on next page.*

TOP 50 GROWTH CHAINS

RANKED BY PERCENTAGE INCREASE IN SALES AND UNITS

Sales Rank	Chain	U.S. System Sales (000) 1988	U.S. System Sales (000) 1987	% Sales Change 1987-88	Avg. Unit Volume (000) 1988	U.S. System Units 1988	U.S. System Units 1987	% Unit Change 1987-88	Unit Rank
1	RALLY'S	$48,000*	$25,000*	92.0%	$600	112	46	143.5%	1
2	OLIVE GARDEN	244,000	137,000	78.1	2,500	125	70	78.6	3
3	TCBY	210,000	121,200	73.3	224	1,175	822	42.9	5
4	EL POLLO LOCO	120,900	75,000	61.2	1,100	149	83	79.5	2
5	OLD COUNTRY BUFFET	71,751	47,772	50.2	1,957	53	36	47.2	4
6	MRS. FIELDS	160,000*	110,000*	45.5	345	550	400	37.5	7
7	T.J. CINNAMONS	50,000	35,000	42.9	225	223	201	10.9	28
8	RUBY TUESDAY	128,000	94,500	35.4	1,800	80	63	27.0	12
9	PIZZERIA UNO	72,600*	54,300*	33.7	1,425	52	45	15.6	21
10	CRACKER BARREL	147,823	110,621	33.6	2,360	67	56	19.6	20
11	SBARRO	154,400	116,000	33.1	485	288	212	35.8	8
12	VIE DE FRANCE	32,500	24,600	32.1	600	56	54	3.7	47
13	CHILI'S	297,960	226,110	31.8	2,064	159	126	26.2	15
14	LE PEEP	32,000*	24,400*	31.1	540	67	48	39.6	6
15	WHATABURGER	272,000	210,000*	29.5	645	422	345	22.3	16
16	GOOD EARTH RESTAURANTS	66,000*	52,000*	26.9	2,000	33	26	26.9	13
17	RYAN'S FAMILY STEAK HOUSES	234,000	185,000	26.5	2,184	122	95	28.4	11
18	OLD SPAGHETTI WAREHOUSE	25,400	20,700	22.7	2,100	12	11	9.1	34
19	PIETRO'S	44,000*	36,000*	22.2	575	79	65	21.5	17
20	HOUSTON'S RESTAURANTS	69,557	57,019	22.0	4,067	18	16	12.5	26
21	BAKERS SQUARE	189,354	155,788	21.5	1,250	150	138	8.7	35
22	VALENTINO'S	34,000	28,000	21.4	950	40	30	33.3	10
23	ARK RESTAURANTS	37,853	31,394	20.6	2,000	19	15	26.7	14
24	L&N SEAFOOD GRILL	36,000	30,300	18.8	2,000	18	16	12.5	27
25	RED ROBIN	100,325	85,358*	17.5	2,134	47	45	4.4	46
26	BENIHANA OF TOKYO	84,000	71,600	17.3	1,750	47	44	6.8	39
27	SANDWICH CHEF	35,000	30,000*	16.7	210	175	200	(12.5)	50
28	TOGO'S	55,000	47,300	16.3	470	121	110	10.0	31
29	BLACK-EYED PEA	72,000*	62,000	16.1	1,350	55	48	14.6	23
30	SIRLOIN STOCKADE	52,305	45,149	15.8	770	67	64	4.7	45
31	OLGA'S KITCHEN	41,700	36,000*	15.8	900	51	38	34.2	9
32	JERRY'S SUBS & PIZZA	38,000	33,000	15.2	575	68	63	7.9	37
33	BLIMPIE	107,400	93,600	14.7	325	350	292	19.9	19
34	PICCADILLY CAFETERIAS	251,883	219,609	14.7	1,999	126	118	6.8	40
35	BOB EVANS FARMS	285,526	249,191	14.6	1,400	221	194	13.9	24
36	CHICK-FIL-A	232,189	202,724	14.5	622	386	363	6.3	41
37	GROUND ROUND	260,975	228,600	14.2	1,245	212	192	10.4	29
38	RALPH & KACOO'S	26,738	23,447	14.0	4,684	6	5	20.0	18
39	ORIG. GREAT AM. COOKIE	49,000	43,000	14.0	215	247	215	14.9	22
40	HUDDLE HOUSE	50,000	44,000	13.6	360	147	130	13.1	25
41	QUINCY'S FAMILY STEAK HOUSES	250,900	221,500	13.3	1,170	211	215	(1.9)	49
42	OLD SPAGHETTI FACTORY	36,900	32,600	13.2	1,600	23	21	9.5	33
43	LEVY RESTAURANTS	62,000*	55,000*	12.7	1,938**	32	29	10.3	30
44	PAPA GINO'S	132,000	117,500	12.3	650	207	192	7.8	38
45	RESTAURANTS UNLIMITED	56,000	50,000	12.0	2,900	19	18	5.6	43
46	HAPPY JOE'S PIZZA	28,283	25,304	11.8	362	78	78	0.0	48
47	TACO JOHN'S	116,000	104,000	11.5	273	448	424	5.7	42
48	MARIE CALLENDER'S	245,000*	220,000*	11.4	2,000	148	135	9.6	32
49	CAROUSEL SNACK BARS	52,000*	46,800*	11.1	170	330	313	5.4	44
50	LUBY'S CAFETERIAS	264,000	239,000	10.5	2,360	117	108	8.3	36

*Technomic estimate
**RB estimate

TOP 50 GROWTH CHAINS

RANK BY SALES

NLY

COMPANIES WITH AT LEAST A 10% GROWTH RATE IN DOLLAR SALES FROM 1987 TO 1988 AND CALENDAR YEAR '88 U.S. SYSTEMWIDE SALES BETWEEN $25M AND $300M WERE INCLUDED.

$121.3

$114

THE GROWTH CHAINS: GROWING FASTER

1988 Sales in Billions

1987 Sales in Billions

% Change 24.4%

% Change 6.4%

$5.8 $4.7

Top 50 Growth Chains

Total Separate Eating Places

SOURCE: Technomic Inc.

RESTAURANT BUSINESS/JULY 20, '89

1 RALLY'S

Louisville, KY

1988 U.S. Systemwide Sales	**$48,000,000(E)**
1988 U.S. Systemwide Units	**112**

Privately owned Rally's is the largest and fastest-growing drive-thru-only burger chain. It opened its 100th unit last December in Louisville and looks ahead to nearly 150 stores by the close of fiscal 1989 (June 30), and nearly 200 by December. The company has now reached more than 20 states. Leading the company's growth are experienced franchisees such as James Patterson, founder of Long John Silver's. Capital investment for franchisees is less than one half of what is needed by the major chains.

2 OLIVE GARDEN

(General Mills Restaurant Group)
Orlando, FL

1988 U.S. Systemwide Sales	**$244,000,000**
1988 U.S. Systemwide Units	**125**

General Mills continues to stoke the Olive Garden growth machine. In three years, the Italian-style dinner-house chain has gone from 14 to 92 units; that number is expected to reach 145 by the end of fiscal 1989. Last year, the chain entered such markets as San Antonio, Knoxville, Chicago, and Kansas City. Now in 22 states, Olive Garden will continue to fill in existing markets as well as move into new areas. The company is also refining the menu, adding items such as beef ravioli and frittatas.

3 TCBY

Little Rock, AR

1988 U.S. Systemwide Sales	**$210,000,000**
1988 U.S. Systemwide Units	**1,175**

New products and new franchisees are the headlines for TCBY, which continues on a roll, projecting more than 1,300 units in all 50 states and $300 million in 1989 systemwide sales. This year, it rolled out a nonfat frozen yogurt and the Shiver, a frozen yogurt product available with mix-in candy pieces, fruits, nuts, and toppings. A joint promotion this summer touts TCBY nonfat yogurt and diet soda in a float targeted to waistline watchers. Growth has been spurred in the Northeast and upper Midwest.

continued on page 114

UALIFYING

COMPANIES WITH DISTINCT CHAINS WERE BROKEN OUT AT THE CHAIN LEVEL. EXAMPLE: OLIVE GARDEN IS BROKEN OUT FROM GENERAL MILLS.

STAYING POWER

Only 21 companies have stayed in the Top 50 list since last year.

	This year's rank	Last year's rank
Bakers Square	21	26
Blimpie	33	38
Bob Evans Restaurants	35	44
Carousel Snack Bars	49	40
Chick-fil-A	36	47
Chili's	13	13
Cracker Barrel	10	21
Houston's Restaurants	20	23
Jerry's Subs & Pizza	32	27
Le Peep	14	2
Levy Organization	43	31
Marie Callender's	48	41
Mrs. Field's Cookies	6	8
Old Country Buffet	5	5
Olive Garden	2	1
Papa Gino's	44	20
Red Robin	25	7
Restaurants Unlimited	45	4
Taco John's	47	49
TCBY	3	6
Togo's	28	33

SOURCE: Technomic Inc.

EL POLLO LOCO

(Denny's Inc.)
La Mirada, CA

1988 U.S. Systemwide Sales	**$120,900,000**
1988 U.S. Systemwide Units	**149**

EPL will continue to expand its char-broiled chicken concept this year at a solid pace. After nearly doubling its size in 1988, the company expects to open at least 55 more units this year. A side salad ($1.19) was recently rolled out chainwide, and stores are averaging about 40 salad sales per day. A frozen pineapple-flavored dessert whip has also been added. The chain has decided not to pursue its salsa bar. No new marketing pushes are planned, although a new television ad is expected this month.

OLD COUNTRY BUFFET

(Buffets Inc.) **Eden Prairie, MN**

1988 U.S. Systemwide Sales	**$71,751,000**
1988 U.S. Systemwide Units	**53**

In 1988, Old Country Buffet increased its standing as the country's largest and most successful buffet chain. It finished the year with 52 company-owned and six franchised restaurants in 12 states, adding 17 company stores, including its first efforts in Michigan, Indiana, and Ohio. In 1989, the company expects to add 20 new units, making its first forays into Tennessee and the Carolinas. The first quarter of 1989 was its most profitable ever, marked by a 90% increase in net earnings.

MRS. FIELDS

Park City, UT

1988 U.S. Systemwide Sales	**$160,000,000(E)**
1988 U.S. Systemwide Units	**550**

Mrs. Fields' integration of La Petite Boulangerie is complete, and muffins are being tested in Mrs. Fields units. In addition, some units have been constructed that hold both concepts. The future is unclear as far as synergy goes, however. Mrs. Fields has also added quality ice cream products in some stores. Competition in the segment has made it harder for Mrs. Fields to keep up strong unit volumes of $345,000.

T.J. CINNAMONS
Kansas City, MO

1988 U.S. Systemwide Sales	**$50,000,000**
1988 U.S. Systemwide Units	**223**

This chain primarily uses owner/operators to run stores, limiting growth of individual franchisees to 10 units, but encouraging strong market presence and local flavor. Over 90% of sales are in the morning, but the cinnamon-roll chain is testing snack items to broaden appeal and increase average unit volume, which is $225,000. Muffins have already been added, and cookies where possible.

RUBY TUESDAY
(Morrison Inc.)
Mobile, AL

1988 U.S. Systemwide Sales	**$128,000,000**
1988 U.S. Systemwide Units	**80**

Due to a lack of good mall locations, Ruby Tuesday is planning to open more freestanding units in the next few years—with a freestander slated for Atlanta by year end. Overall, executives expect to open between 20 and 25 new restaurants in fiscal 1989. Targeted locations include Chicago, Detroit, Ohio, and suburban Washington, DC. A new menu is currently in test in Atlanta that includes some new dishes: seafood salad, tostada salad, fried chicken salad, and a "smokey mountain" chicken filet.

PIZZERIA UNO
West Roxbury, MA

1988 U.S. Systemwide Sales	**$72,600,000(E)**
1988 U.S. Systemwide Units	**52**

Casual-theme chain Pizzeria Uno added former Burger King chairman J. Jeffrey Campbell to a list of fast-track franchisees that already includes Art Gunther, Lou Neeb, and Jeff Grayson. Campbell plans to open two units in Charlotte and Asheville, NC, by year end. Pizzeria Uno will continue to pursue opportunities in the Northeast, opening new company-owned units in Washington, DC's Union Station and Buffalo, NY. The company as a whole is expected to expand at a rate of 40% to 50% a year.

CRACKER BARREL
Lebanon, TN

1988 U.S. Systemwide Sales	**$147,823,000**
1988 U.S. Systemwide Units	**67**

The full-service, family-oriented Cracker Barrel chain of country-style restaurants and gift shops is striving to maintain its 20% expansion rate, spurred on by a $22 million common stock offering this year. Last year it opened 12 stores, and has 15 targeted for this year. It prefers to locate on interstate highways, with I-75 southeast from Tennessee to Florida a strong market. The chain has spread as far north as Ft. Wayne, IN. Unit volumes of some stores have gone as high as $2 million.

SBARRO
Commack, NY

1988 U.S. Systemwide Sales	$154,400,000
1988 U.S. Systemwide Units	288

Sbarro is not messing with its winning formula, except to test a strip center location. Until now, all units have been located in malls, except for some freestanding units in New York City. Management is pleased with volumes from the strip center test, but is still waiting before building more. Recent menu additions are pasta primavera and seafood items, but emphasis remains on spaghetti, pizza, and other Italian specialties. Expansion to new markets will continue.

VIE DE FRANCE
McLean, VA

1988 U.S. Systemwide Sales	**$32,500,000**
1988 U.S. Systemwide Units	**56**

Very few changes are planned at Vie de France, which has been largely successful with its two formats: cafes and restaurants featuring its signature baked goods. Average unit volume: $600,000... A 50/50 joint venture deal has been signed with California Pizza Kitchen of Los Angeles to open CPKs on the East Coast. The first will be at a new regional mall in Tyson's Corner, VA. Others will follow.

continued on page 146

13 CHILI'S
Dallas, TX

1988 U.S. Systemwide Sales	**$297,960,000**
1988 U.S. Systemwide Units	**159**

Chili's continues to roll on, enjoying its fifth consecutive year of comparable store sales gains (at press time in the 4% to 5% range) and heading for projected $350 million sales in 1989. This year, Chili's acquired the six-unit Grady's casual-dining concept as an additional growth vehicle. It plans to maintain its growth pace of 30 to 35 new Chili's plus two or three Grady's per year, developing clusters of units in established markets for effective media usage. A grilled tuna salad is a recent menu addition.

RANCHISEES WERE EXCLUDED TO PREVENT DOUBLE COUNTING. TOP 50 CHAINS HAVE 10 OR MORE UNITS AND MAY OPERATE DIVERSE CONCEPTS.

14 LE PEEP
Denver, CO

1988 U.S. Systemwide Sales	**$32,000,000(E)**
1988 U.S. Systemwide Units	**67**

Le Peep is currently expanding into new locations. Until now, these breakfast-only units have been placed primarily on shopping center mall pads or have been freestanding. Now, however, the chain is about to open its first food court location and it is also looking into mall locations. Other changes may follow, including some in the area of menu development and the type of franchisees to be selected.

15 WHATABURGER
Corpus Christi, TX

1988 U.S. Systemwide Sales	**$272,000,000**
1988 U.S. Systemwide Units	**422**

This privately owned hamburger chain is a giant in its southwestern markets, although it's little known outside that region. Units are adding drive-thrus and the chain last year added a tortilla with pork sausage in deference to its Mexican clientele. The company also markets to adults with a wide choice of made-to-order hamburgers.

16 GOOD EARTH RESTAURANTS
Calabasas, CA

1988 U.S. Systemwide Sales	**$66,000,000(E)**
1988 U.S. Systemwide Units	**33**

Good Earth, located primarily on the West Coast, is beginning to push eastward. A franchised operation opened last month in Pittsburgh; additional units are slated for Atlanta and Philadelphia. The company currently has franchisee commitments in 14 new areas. A new prototype has debuted, featuring more contemporary colors, a new logo, neon lighting, and a more visible baked goods section. A new menu was also rolled out chainwide with such items as Calico Bay scallops and a seafood melt.

17 RYAN'S FAMILY STEAK HOUSES
Greer, SC

1988 U.S. Systemwide Sales	**$234,000,000**
1988 U.S. Systemwide Units	**122**

The family-oriented steak-house chain grew by five franchised and 15 company-owned stores last year. Recent menu rollouts include a rainbow trout fillet and a chicken filet sandwich. New combination plates are in test. The Mega Bar food bar, which garners more than 40% of total sales, offers three to five hot meat entrees daily. This operations-driven company eschews marketing promotions in favor of word-of-mouth advertising, using the dollars it saves to offset food costs.

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18 OLD SPAGHETTI WAREHOUSE

Garland, TX

1988 U.S. Systemwide Sales	**$25,400,000**
1988 U.S. Systemwide Units	**12**

Buoyed by mild winter weather and a successful five-week lasagna promotion, third-quarter earnings jumped from 18¢ to 32¢ per share for the high-volume chain of family-oriented Italian eateries, as it moved toward a projected $27 million fiscal year-end sales total. Within five years, it projects an increase from 12 to 25 units. The operations-driven company has added a construction division and a draftsman and is looking at new creatives, updated in-store merchandising, and an employee incentive program.

19 PIETRO'S

Lynwood, WA

1988 U.S. Systemwide Sales	**$44,000,000(E)**
1988 U.S. Systemwide Units	**79**

This pizza chain is completely company-owned and has no plans to franchise. It primarily offers variations on pizza, but has recently been testing an Italian buffet in four of its markets. The all-you-can-eat pasta and salad bars are priced at $5.89 at dinner and so far chain officials consider the addition a success. The company has no plans to move out of its Pacific Northwest markets of Oregon and Washington.

20 HOUSTON'S RESTAURANTS

Atlanta, GA

1988 U.S. Systemwide Sales	**$69,557,000**
1988 U.S. Systemwide Units	**18**

Now in its 13th year, this closemouthed, privately held casual-dining chain is one of the industry's most admired companies, due to its emphasis on scratch-made food, all-premium bar, attractive design, and excellent service. The company expands slowly at a rate of one or two units per year, considering sites in major metropolitan areas throughout the country, with the exception of the Northeast. The company steadfastly refuses to go public, franchise, or sell equity interests, despite continual inquiries.

21 BAKERS SQUARE

(VICORP)
Denver, CO

1988 U.S. Systemwide Sales	**$189,354,000**
1988 U.S. Systemwide Units	**150**

An average unit volume of about $1.2 million is typical for this coffee shop's restaurants. Bakers Square has finally absorbed the Sambo's units it bought following that chain's troubles, and the menu has been trimmed significantly. Underperforming menu items were eliminated, and signature items—including pies—are being emphasized and promoted heavily. The company has no plans for expansion into new markets.

22 VALENTINO'S

Lincoln, NE

1988 U.S. Systemwide Sales	**$34,000,000**
1988 U.S. Systemwide Units	**40**

Valentino's has rolled out its new Italian/soup/salad/pizza bar systemwide, and it now accounts for 90% of in-store sales, priced at $4.49 at lunch and $5.59 at dinner. But 45% of total sales are still take-out, with delivery now accounting for 10%. Many new markets are being cracked by franchisees. Kansas was recently added, with rural markets offering current growth. The chain's average unit volume: $950,000.

23 ARK RESTAURANTS

New York, NY

1988 U.S. Systemwide Sales	**$37,853,000**
1988 U.S. Systemwide Units	**19**

In 1988, Ark Restaurants expanded through the addition of three management contracts in Boston's Faneuil Hall, and opened El Rio Grande—a Mexican concept it manages and co-owns—in New York City. This year, concentrating on company-owned units in Manhattan, Ark opened Poiret, a French bistro; An American Place, co-owned with chef Larry Forgione; and Gonzalez Y Gonzalez, a Mexican restaurant. In Washington, DC's Union Station, it opened a spinoff of its popular NYC restaurant, America.

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L&N SEAFOOD GRILL

(Morrison Inc.) **Mobile, AL**

1988 U.S. Systemwide Sales	**$36,000,000**
1988 U.S. Systemwide Units	**18**

This dinner-house concept will expand by three to five units in 1989, with Eastern seaboard sites being developed. The company is creating a system that would allow restaurants to feature more seasonal fish and seafood products, to help L&N keep prices down. The specials, which will be offered on a market-by-market basis, will be supported by localized promotions. Marketing for the chain will be used on a selective basis, with the bulk of the advertising dollar going to direct mail merchandising.

SECOND-TIER CHAINS STAY WITHIN WELL-DEFINED MARKET NICHES, WHICH OFTEN ENABLES THEM TO GROW FASTER THAN LARGER COMPANIES.

RED ROBIN

Irvine, CA

1988 U.S. Systemwide Sales	**$100,325,000**
1988 U.S. Systemwide Units	**47**

Now a wholly owned subsidiary of Japanese food giant Skylark, Red Robin is trying to reduce land and building costs while increasing check average. A reduced and simplified menu, along with a trimmed-down new building size, has increased the average check by over $1 in the last year. Entrees are being stressed so the chain can break out of the "gourmet burger" segment perception.

BENIHANA OF TOKYO

Miami, FL

1988 U.S. Systemwide Sales	**$84,000,000**
1988 U.S. Systemwide Units	**47**

A quarter-century after its founding by Japanese immigrant Rocky Aoki, Benihana plans no changes in its simple, streamlined operations, featuring a limited menu of steak, lobster, shrimp, chicken, and vegetables cooked by a showman-chef at a tableside hibachi. Benihana of Tokyo is the private company wholly owned by Aoki, while Benihana National Corp. is the publicly held licensing subsidiary. Last year, BNC closed its two Big Splash seafood restaurants, selling one and converting the other to a Benihana.

SANDWICH CHEF

Birmingham, AL

1988 U.S. Systemwide Sales	**$35,000,000**
1988 U.S. Systemwide Units	**175**

The company's Chef's operations include the following: Sandwich Chef, R.C. Coopers, and five other delicatessen sandwich concepts. Although the Sandwich Chef concept was the expansion vehicle in the past, the company has recently begun to focus its energies on the more upscale, higher-volume R.C. Coopers, which features regular Sandwich Chef sandwiches as well as premade salads. In 1988, six Sandwich Chefs were converted to R.C. Coopers; the company also added 13 new R.C. Coopers.

TOGO'S

(MTC Management Inc.)
Campbell, CA

1988 U.S. Systemwide Sales	**$55,000,000**
1988 U.S. Systemwide Units	**121**

narily franchised, this chain is currently expanding widely in uthern California. Company officials then intend to focus on Nevada and Oregon. It has been adding about 15 to 18 units a year, and will continue at that pace. New products include seafood salad and soups added to a menu primarily comprised of salads and sandwiches, with beer and wine. Sixty percent of sales occur at lunchtime. Average unit volume is $470,000. The average check is $3.65.

29 BLACK-EYED PEA

(Unigate PLC) **Dallas, TX**

1988 U.S. Systemwide Sales	**$72,000,000(E)**
1988 U.S. Systemwide Units	**55**

The country-cooking chain is operated by Prufrock Restaurants, a subsidiary of the British firm Unigate PLC. Black-eyed Pea has added lighter items such as baked whitefish, grilled chicken salad, charbroiled chicken, and whole wheat rolls to its menu mainstays, which are chicken-fried steak and chicken-fried chicken, red beans and rice, and black-eyed peas. The concept has expanded into suburban Washington, DC, and Denver. Projections call for eight to 12 new stores annually for the next few years.

30 SIRLOIN STOCKADE

Hutchinson, KS

1988 U.S. Systemwide Sales	**$52,305,000**
1988 U.S. Systemwide Units	**67**

The privately owned Sirloin Stockade family-oriented steakhouse chain includes 63 franchised units, mostly in Oklahoma, Texas, and Kansas. Future growth is pegged at a steady 10 to 12 units per year, about 75% franchised. The company plans to support its franchised and company stores with increased marketing by means of electronic media, point-of-sale materials, in-store promotions, and special events. A "kids eat free" promotion on Tuesdays has significantly boosted sales on that day.

31 OLGA'S KITCHEN

Troy, MI

1988 U.S. Systemwide Sales	**$41,700,000**
1988 U.S. Systemwide Units	**51**

Privately held Olga's adheres steadily to its niche, offering pita-like Olga sandwiches and table service in regional shopping mall units. In 1988, Olga's resumed company store expansion after a two-year hiatus, opening eight units in its Detroit home base. The company is committed to supporting existing franchisees before seeking new ones. Areas slated for franchise development include upstate New York, Washington, DC, and Los Angeles. It anticipates 15 new company units and about five franchised stores.

32 JERRY'S SUBS & PIZZA

Rockville, MD

1988 U.S. Systemwide Sales	**$38,000,000**
1988 U.S. Systemwide Units	**68**

With 65 units, Jerry's has recently moved into the Philadelphia market, keeping to its plan of gradually moving into new markets in its mid-Atlantic base. New product development recently yielded a pizza slice, and new sandwich combinations are on the way. Biggest seller: steak and cheese sandwich. Sandwiches are responsible for 75% of product mix; pizza picks up the remainder. Average unit volume is $575,000. Jerry's next new expansion market: northern Virginia.

33 BLIMPIE

(Astor Restaurant Group)
New York, NY

1988 U.S. Systemwide Sales	**$107,400,000**
1988 U.S. Systemwide Units	**350**

In June, the chain began testing Blimpie Lites — a new low-calorie sandwich and salad line — in 70 stores in Georgia. The line offers a choice of five pre-made ingredients, available in either salads or sandwiches served on pita bread: seafood and crab, tuna, chicken salad, turkey salad, and tofu fish (a new surimi product). Additionally, the company is continuing to develop its program of area distributorships. Currently, Blimpie has 14 contracts signed and expects that number to reach 25 to 30 in the next two years.

34 PICCADILLY CAFETERIAS

Baton Rouge, LA

1988 U.S. Systemwide Sales	**$251,883,000**
1988 U.S. Systemwide Units	**126**

The past year for Piccadilly has been marked by unit expansion, sales increases, a trailblazing foray into central California, and the acquisition of the six Ralph & Kacoo's Cajun seafood dinner houses, which will be an additional growth vehicle. The company met its growth target of 10 additional cafeteria units in fiscal 1989 and anticipates another 10 cafeterias in fiscal 1990 and at least one additional Ralph and Kacoo's. Future expansion will be focused on new markets in California and the Sunbelt.

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BOB EVANS FARMS
Columbus, OH

1988 U.S. Systemwide Sales	**$285,526,000**
1988 U.S. Systemwide Units	**221**

The homestyle cooking chain enjoyed a net gain of 21 units in 1988, despite the sale of six underperforming stores in the Chicago suburbs. Its Owens family restaurants company in Texas, which has three units, should grow by four or five units this year. In 1989, Bob Evans will open its first units in Virginia and suburban Philadelphia. The company is updating its breakfast menu with new lighter, healthful items such as oatmeal, bran muffins, an omelet made with egg substitute, and a fruit plate.

38 RALPH & KACOO'S
(Piccadilly Cafeterias)
Baton Rouge, LA

1988 U.S. Systemwide Sales	**$26,738,000**
1988 U.S. Systemwide Units	**6**

New parent Piccadilly Cafeterias says it has no major changes in store for the six-unit group of Cajun seafood dinner houses in Louisiana and Texas it acquired last year—just a continued transition from independent to major corporate systems. The Ralph & Kacoo's culture is said to be blending well with Piccadilly's, and key personnel remain on the job. In the short term, Piccadilly plans one or two new Ralph & Kacoo's in the next year, leapfrogging into neighboring Southern states in the future.

36 CHICK-FIL-A
Atlanta, GA

1988 U.S. Systemwide Sales	**$232,189,000**
1988 U.S. Systemwide Units	**386**

While many chicken segment chains saw flat or decreased sales for 1988, Chick-fil-A enjoyed a 14.5% increase. The privately held company has recently added a "street strategy" to its predominantly mall-based approach. By the end of 1988, the company had 10 street locations in Atlanta, and had plans to continue adding freestanding stores in surrounding cities. With average unit volume totaling more than $1 million, these stores tend to surpass the chain average, helping fuel this year's increase.

ORIG. GREAT AM. COOKIE
(Orig. Great Am. Choc. Chip Cookie) **Atlanta, GA**

1988 U.S. Systemwide Sales	**$49,000,000**
1988 U.S. Systemwide Units	**247**

Primarily franchised, Original Great American Cookie units are generally located in shopping malls. Some other locations have been tested. In the last few months, a variety of brownie products have been added to the chain's basic cookie menu. New markets are being developed in California, Massachusetts, Oregon, and Nevada. Growth will continue at a 10% annual rate. Average unit volume: $215,000.

GROUND ROUND
(Hanson Industries PLC)
South Weymouth, MA

1988 U.S. Systemwide Sales	**$260,975,000**
1988 U.S. Systemwide Units	**212**

Twenty-year-old Ground Round's success formula is to be many things to many people, including families, singles, businesspeople, and seniors. Ribs are a signature item, followed closely by its half-pound Ground Rounder burger. A popular promotion lets kids eat for one cent per pound of body weight. In 1988, it acquired 20 Stuart Anderson restaurants and added 15 company units and five franchised units. Internal company emphases are on training, recognition, and retention of employees, and incentives.

40 HUDDLE HOUSE
Decatur, GA

1988 U.S. Systemwide Sales	**$50,000,000**
1988 U.S. Systemwide Units	**147**

Huddle House's 24-hour-a-day coffee shops rely on breakfast for approximately 40% of sales, although some menu expansion has been undertaken. A club sandwich, new omelets, and a grilled chicken sandwich have been added, but the chain intends to remain a "blue-collar" restaurant, eschewing major changes for its traditional customer. A newly designed unit now offers 60 seats, which increases sales by about $200 a day. Fast growth is expected to continue, with 25 to 30 new units anticipated in fiscal 1990.

41 QUINCY'S FAMILY STEAK HOUSES

(Spartan Food Systems Inc.) **Spartanburg, SC**

1988 U.S. Systemwide Sales	**$250,900,000**
1988 U.S. Systemwide Units	**211**

The family-oriented Quincy's budget steak-house chain is operated by Spartan Food Systems, a wholly owned subsidiary of TW Services Inc. It totals 211 units, located primarily in the Southeast. A recent menu addition is grilled chicken breast; the Country Sideboard food bar offers hot foods, salads, soups, and desserts such as deep-dish pies and ice cream sundaes. Expansion target for Quincy's this year is 11 units.

42 OLD SPAGHETTI FACTORY

Portland, OR

1988 U.S. Systemwide Sales	**$36,900,000**
1988 U.S. Systemwide Units	**23**

This year marks the 20th anniversary for the privately owned full-service, family-oriented chain, which, as of 1989, encompasses 24 domestic units and eight in Japan. Stateside, it is enjoying a 6% increase in same-store sales this year. Over the past year, OSF has opened units in Salt Lake City, Atlanta, and Oakland; expansion targets are the Midwest, Southeast, San Francisco, and Los Angeles. The menu, which specializes in spaghetti dishes, has been broadened with the addition of lasagna in 1988.

43 LEVY RESTAURANTS

Chicago, IL

1988 U.S. Systemwide Sales	**$62,000,000(E)**
1988 U.S. Systemwide Units	**32**

Privately held Levy Restaurants operates a variety of restaurants in the quick-service, midscale, and upscale segments. All are located in Chicago, with the exception of three units in Pittsburgh and a pair recently opened at Walt Disney World's new Pleasure Island complex in Orlando, FL: The Fireworks Factory and the Portobello Yacht Club. In Chicago, Hopper's Dining Car opened last fall, brought a midprice eclectic menu to the Magnificent Mile residential, shopping, and hotel district.

44 PAPA GINO'S

Dedham, MA

1988 U.S. Systemwide Sales	**$132,000,000**
1988 U.S. Systemwide Units	**207**

Growth is continuing at a pace of about 20 units a year, but there are no plans to tackle new markets outside the chain's New England home base. The menu primarily consists of Italian specialties, but Papa Gino's recently added premium soft ice cream with mix-ins to broaden its appeal, especially for the summer months. Average unit volume runs about $650,000 in a relatively small floor space.

MANY TOP 50 OPERATORS HAVE DUPLICATED THEIR SUCCESS IN DIFFERENT CITIES THAT HAVE SIMILAR DEMOGRAPHICS AND CLIENTELES.

45 RESTAURANTS UNLIMITED

Seattle, WA

1988 U.S. Systemwide Sales	**$56,000,000**
1988 U.S. Systemwide Units	**19**

In a big step for the Seattle-based dinner-house chain, it has opened its first East Coast restaurant, Cutter's, in Philadelphia. The new unit brings the number of RU properties to 19, including one located in an Embassy Suites hotel. Another area of growth for the company is Cinnabon, a wholly owned subsidiary, which now has over 100 units primarily located in shopping malls. Cinnabon, a fresh cinnamon roll and baked goods concept, has an average unit volume of $280,000.

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46 HAPPY JOE'S PIZZA

Bettendorf, IA

1988 U.S. Systemwide Sales	**$28,283,000**
1988 U.S. Systemwide Units	**78**

Although 75% of sales come from pizza, this chain is trying to broaden its appeal with the addition of pastas and other Italian specialties to its menu. Units are being updated from an old-fashioned ice cream parlor look to a more contemporary brass and oak design concept. About 30% of the chain has been remodeled, and all new units have the new look. Average unit volume: $362,000, with a $4.25 check average.

IDENING

APPEAL HAS BECOME TOP PRIORITY.

ADDING MENU ITEMS, ENHANCING

DECOR, AND IMPROVING SERVICE

HAVE BOOSTED CHAIN POPULARITY.

47 TACO JOHN'S

Cheyenne, WY

1988 U.S. Systemwide Sales	**$116,000,000**
1988 U.S. Systemwide Units	**448**

Taco John's recent remodeling program has provided many units with drive-thrus and more seating. The menu was expanded to include chicken, which can now be ordered in all items, and the average check is bumping up at $3.50. Advertising has become more of a focus, with regional advertising cooperatives formed by franchisees, who compose 98% of the chain. The company has no plans to move out of its home markets in the upper Mid- and Northwest.

48 MARIE CALLENDER'S

(Wilshire Restaurant Group) **Orange, CA**

1988 U.S. Systemwide Sales	**$245,000,000(E)**
1988 U.S. Systemwide Units	**148**

In May, Marie Callender's was purchased from Ramada by Wilshire Restaurant Group Inc. Franchising will remain the chain's primary growth strategy, but some changes are in the works. A smaller, 5,700-sq.-ft. unit is being tested for smaller markets and for filling in existing markets. About 5% of the menu has been trimmed over the last year to streamline operations and improve quality.

49 CAROUSEL SNACK BARS

Minneapolis, MN

1988 U.S. Systemwide Sales	**$52,000,000(E)**
1988 U.S. Systemwide Units	**330**

A new agreement with A&W Root Beer to sell its products in Carousel's stores is expected to further accelerate sales and unit growth for this chain. Hot dogs account for 30% of sales. Much growth has come from acquisition of smaller chains, and management intends to continue growing in that manner. Existing markets are still being filled, with 330 units in 46 states. Average unit volume: $170,000.

50 LUBY'S CAFETERIAS

San Antonio, TX

1988 U.S. Systemwide Sales	**$264,000,000**
1988 U.S. Systemwide Units	**117**

Luby's, an entirely company-owned chain, continues to grow at 10% per year, having added 12 stores over the past year. It christens its new Florida market this year with a store in Tampa. Luby's take-out food program is a major marketing emphasis; about one-third of Luby's units have been retrofitted with separate entrances, signage, and point-of-sale material to promote food to go. A special abbreviated take-out menu has been rolled out, but the entire menu is available for take-out on request.

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MARKET SEGMENT REPORT

CHICKEN

COMPETITION AND CONSOLIDATION seem to be the buzzwords in the maturing chicken segment these days as national and regional chains continue to battle for market share.

While a few chains such as Kentucky Fried Chicken are flourishing in this highly competitive environment, others are enduring flat or disappointing sales while still others must struggle simply to survive.

Ironically, this turmoil comes at a time when chicken consumption has reached an all-time high in this country. According to retail figures released by the U.S. Department of Agriculture, Americans ate 64.1 lb. of chicken per person in 1988, an increase of 2% over the 62.8 lb. in 1987. And, by the end of 1989, the USDA expects that figure to rise to 67.5 lb. per person.

And while the number of restaurants specializing in chicken continues to rise as well, that total is being offset by the number of units that are being closed or converted to other concepts. Church's Fried Chicken, for example, recently shuttered about 110 underperforming company stores in an effort to trim costs. According to the Restaurant Consulting Group, based in Evanston, IL, there were 12,292 chicken restaurants operating in the United States in 1988, a total increase of only about 130 units over the previous year.

UNCERTAIN SITUATION. Industry analysts attribute the uncertain situation to a number of factors. Obviously, the competition from the top burger chains selling a variety of chicken products has taken its toll on all players. One expert points out that, after Kentucky Fried Chicken, the next three largest purveyors of chicken in the foodservice industry are McDonald's, Burger King, and Wendy's.

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COMPETITION FROM BURGER CHAINS SELLING CHICKEN PRODUCTS HAS TAKEN ITS TOLL ON THE SEGMENT.

BY PAUL FRUMKIN

El Pollo Loco is focusing on its Mexican-style marinated char-broiled chicken.

MARKET SEGMENT REPORT

CHICKEN

COMPETITION AND CONSOLIDATION SEEM TO BE THE BUZZWORDS IN THE MATURING CHICKEN SEGMENT.

"The image has become so blurred, that it's hard to even refer to it as the chicken segment anymore," comments Gregg Reynolds, Kentucky Fried Chicken's vice president of public affairs.

Steven Rockwell, an analyst with Alex. Brown & Sons in Baltimore, concurs that while the burger chains have made inroads, the clearly dominant position of Kentucky Fried Chicken as well as the strong regional presence of Church's and Popeyes makes it more difficult for smaller chains to succeed. "There might be several isolated markets where they can do well," he explains, "but it's much tougher for those smaller regionals to break in these days."

Not everybody attributes these problems to stiff competition, however. Frank Portillo, president of the Lombard, IL-based Brown's Chicken, suggests that some of his competitors' woes are a result of operational difficulties. "You just can't throw money into a restaurant," he says. "This is an old-fashioned business and you must get involved. A lot of these chains that have closed units lacked experience in the operating end of the business."

MATURATION. Whatever the exact reasons, though, the general mood within the segment is summed up by KFC's Reynolds: "What we're seeing is the process of maturation at work."

Kentucky Fried Chicken further distanced itself from the rest of the flock in 1988, consolidating its position as a strong number-one in the segment. Owned by PepsiCo Inc., the Louisville, KY-based chain saw its market share rise last year to 46%—an increase of 2% over 1987. And this year, a spokesperson estimates, that figure is running closer to 50%.

In 1988, KFC generated systemwide sales of $4.9 billion, up about 16% over the previous year's sales of $4.1 billion. Average unit volumes also took a leap in 1988 to $700,000—an increase of 6.1% over 1987.

At the end of last year, the company had 4,889 domestic units in operation—of which 1,262 were company-owned—and 2,862 international restaurants, for a total of 7,751 stores worldwide. That

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Brown's Chicken (above) plans to add eight to 10 new units by the end of this year.

Super Popeyes (below) is a 3,000-sq.-ft. free-standing unit that seats 110.

MARKET SEGMENT REPORT

CHICKEN

figure is expected to increase by more than 350 units by the end of 1989.

This year, KFC is active on a number of fronts. The company will continue to move into the snack and lunchtime market—which began with the rollout of Chicken Littles nearly two years ago. The debut of a larger, midpriced sandwich—called the Colonel's Chicken Filet Burger—is slated for later this year. At the same time, KFC is testing a charbroiled chicken product as well as the Extra Tasty Crispy Chicken—which is in about 800 stores and will eventually supplant Extra Crispy Chicken.

NEW PROTOTYPE. KFC has also embarked upon a redevelopment plan with its new "state-of-the-art" stores. Called the 38 Series because it's 38 ft. deep, the new prototype includes the installation of a $20 million computer system linking the counter, kitchen, drive-thru window, and headquarters. The company expects to have 40 company-owned and franchised 38 Series restaurants operational by year end.

Also in test is the KFC Express, a smaller unit offering a limited menu designed for pedestrian traffic. The KFC Express offers Original Recipe chicken, french fries, chicken sandwiches, biscuits, and beverages. Currently, the company is studying two company-owned Express units in New York and Atlanta, and 11 franchised units in New York.

MANY CHAINS ARE ENDURING FLAT OR NEGATIVE SALES WHILE OTHERS MUST STRUGGLE TO SURVIVE.

After more than four months of wrangling, Al Copeland, the owner of 720-unit Popeyes Famous Fried Chicken & Biscuits, acquired the San Antonio, TX-based Church's Fried Chicken—the number-two chicken chain with 1,368-units—for $392 million.

At the end of 1988, Church's lost $14.5 million on revenues of $419.6 million, compared with a net profit of $9.5 million on revenues of $419.6 million a year earlier. Average unit volumes for 1988 are estimated at $340,000. Revenues have fallen a total of 35% since 1985.

Some investors question whether the $11 a share Copeland paid for the ailing

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Nashville-based Lee's Famous Recipe Chicken is converting old units into a newer "farmhouse" design.

MARKET SEGMENT REPORT

CHICKEN

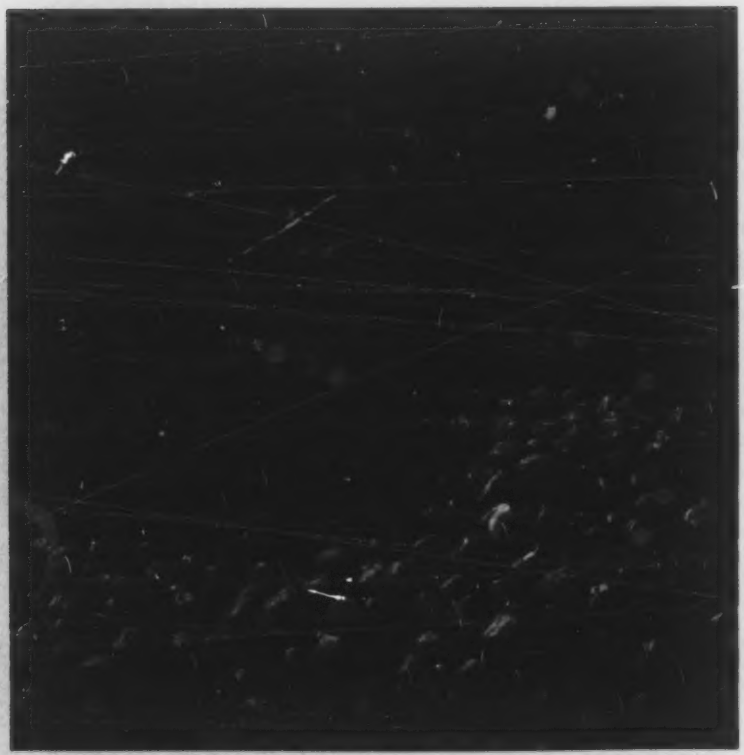
Church's was worth it. Copeland, however, is confident he can turn Church's around and halt its three-year sales and profit plunge.

"My objective is to get sales up 20% at Church's, so I've got to figure out exactly how to do that," Copeland declares. Current plans call for the closing and selling off of between 150 and 175 underperforming Church's units. Popeyes franchisees will be offered the option of buying these units. Prior to the purchase, former president Ernie Renaud had announced that he would shutter 110 Church's units. Additional measures call for shifting the emphasis to opening franchised stores rather than company-owned; broadening the menu—the addition of a new biscuit product and french fries is planned—and increasing the average per-person check; and laying off employees.

Copeland blames Church's problems on units concentrated in the depressed "Oil Belt" and the chain's propensity for deep discounting. According to Lewis "Bucky" Kilbourne, Popeyes' chief financial officer (and a former Church's executive), Church's often discounted prices by as much as 30%. "They started selling two pieces of chicken for 99¢ where they had once charged $1.39," he explains.

Church's, notes Copeland, was "trying to be the Wal-Mart of the chicken business. That led them down the drain."

Lewisville, TX-based Grandy's continues its aggressive marketing in the depressed "Oil Belt."



Based in Lafayette, LA, Popeyes, which is owned by A. Copeland Enterprises, is half the size of Church's. But, at $725,000, its average store volumes are more than twice those of Church's. During 1988, Popeyes' systemwide sales totaled $485 million, an increase of $25 million over 1987.

SUPER POPEYES. Earlier this year, Popeyes rolled out its latest concept, Super Popeyes, in Metairie, LA. The 3,000-sq.-ft. freestanding unit seats 110. The menu offers a number of Southwestern-style grilled items, including a quarter chicken, served with two tortillas, $2.99; a half-chicken, with three tortillas, $4.39; and a whole chicken, with four tortillas, $7.49. Dinners are served with smothered peas or corn, and *pico de gallo* sauce.

Copeland's attitude toward the concept appears to be relatively casual, however. "We don't know what it's going to do, or how to do it. It's just something to play with."

While Copeland wrestles with the problem of how to rebuild Church's, a number of other chain executives are finding themselves in similar straits. Although Woodland, CA-based Intercoastal Properties was given the go-ahead by the courts to purchase the 205-unit Pioneer Take Out chicken chain, the company's negotiations with franchisees over a new franchise agreement are taking longer than expected.

"Things are on hold here," says Pioneer's president and chief financial officer, Thomas Wheelock.

Pioneer spent a year in Chapter XI before being purchased for $7.8 million in cash and notes by Intercoastal, and

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AMERICANS ATE 64.1 LB. OF CHICKEN PER PERSON IN 1988, AN INCREASE OF 2% OVER 62.8 LB. IN 1987.

MARKET SEGMENT REPORT

CHICKEN

AFTER KFC, THE NEXT LARGEST PURVEYORS OF CHICKEN ARE MCDONALD'S, BURGER KING, AND WENDY'S.

franchisees were hopeful that the new owners would infuse the ailing company with much-needed capital. Franchisees still remain hopeful, says Rod Jarboe, president of Pioneer's franchisee association.

In the meantime, the chain is testing a few chicken-related products. Pioneer's systemwide sales for 1988 totaled $65 million, and as a result of the current, prolonged negotiations, Wheelock anticipates that sales for 1989 will be flat. Unit volumes are averaging $300,000.

CREDIBILITY. Franchisees of Charlotte, NC-based Bojangles of America have had little to crow about recently—a problem the chain's New York-based owner Horn & Hardart hopes to rectify with the creation of H&H Restaurant Corp. Operated as a separate division, H&H has been charged with turning around the Bojangles system. When he was appointed president and chief operating officer of H&H a few months ago, John Bifone told *RB* that his first priority was to "win back the credibility of our Bojangles franchisees."

The system seemed to reach a nadir late last year when the deal to sell the chain to Carabo Inc. of Greenville, NC, collapsed. Negotiations between Horn & Hardart and Carabo—Bojangles' largest franchisee—fell apart after they failed to reach an agreement. Following that, Horn & Hardart reassumed franchising responsibilities for Bojangles. Systemwide sales for Bojangles were $138 million for fiscal 1988. A number of underperforming units were shuttered during the year, leaving Bojangles with 181 units, down from a high of 222 a year ago.

Sisters Chicken & Biscuits, the 60-unit midscale chain based in Westlake, OH, also suffered a bad year. Recently, parent SIS Corp. filed for protection under Chapter XI of the federal bankruptcy code. SIS defaulted on its outstanding loan last September and was given an extension to refinance nearly $8 million in back payments.

Sisters, which was purchased from Wendy's in 1987 for $14.5 million by SIS Corp., has been attempting to restore its image as a fried chicken chain. Experts say the company added too many other products, such as grilled sandwiches, a salad bar, and fajitas.

Another midscale chicken chain, Mrs. Winner's Chicken & Biscuits, was recently sold by Winners Corp. to the Atlanta-based RTM Inc. for $30 million in cash plus the assumption of some lease obligations.

Lonnie J. Stout, president and chief executive officer of the Nashville-based Winners, says the company plans to focus its attention and capital resources on its 50 Wendy's restaurants. Sales for 1988 for Winners Corp. had fallen to $106.2 million from $111.9 million in 1987. Previously, the company had been attempting to shore up Mrs. Winner's sagging sales by implementing a new line of menu items called Southern Originals.

Back in March, Winners had agreed to sell 11 Mrs. Winner's stores to Kentucky Fried Chicken. The remaining 110 restaurants will be taken over by

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Recently purchased by Intercoastal, Pioneer Take Out is testing some new products.

MARKET SEGMENT REPORT

CHICKEN

RTM, which currently operates 200 Arby's restaurants in 11 states. According to a spokesperson, RTM will spend up to 18 months "absorbing" Mrs. Winner's. Following that, it plans to expand the chain through the addition of company-owned and franchised properties. RTM has no plans to close any existing units, the spokesperson says.

REPOSITIONING. Meanwhile, El Pollo Asado, the 42-unit charbroiled chicken chain based in Phoenix, continues to reposition itself as a Mexican concept. Ronald Paradis, chief financial officer and executive vice president, explains that the shift is at least partially a result of the chain's damaging move into the Dallas market.

Earlier, El Pollo Asado had opened five company-owned stores in Dallas. But, says Paradis, "The economy and our own financial inability to market the product" forced the company to close the units and, at the same time, reassess the company's marketing niche. El Pollo Asado took a $3.6 million write-off as a result of the unit closings. Systemwide sales totaled $22.6 million in 1988.

At the redesigned concept, diners order, pay, and pick up their beverages at the register. Then they are seated and a server delivers their meals. The menu—which will continue to showcase the chain's charbroiled chicken—includes fajitas, burritos, chimichangas, enchiladas, beef tacos, and taco salad. A salsa bar is also available, in addition to beer, wine, and margaritas.

Development costs for the prototype range from $600,000 to $1 million. El Pollo Asado hopes to have all of its units converted by mid-1990.

But while it would appear that much of the segment is in turmoil, a number of companies are conducting business as usual—and tallying strong sales, as well. Chick-fil-A, the privately held, nonfranchised chicken chain based in Atlanta, enjoyed a double-digit sales increase last year. Systemwide sales hit $232.2 million in 1988, a 14.5% increase of the previous year's figures of $202.7 million. Average unit volumes also rose from $575,000 in 1987 to $622,000 last year—a jump of 8.2%.

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At the end of 1988, KFC had 4,889 domestic units in operation and 2,862 international restaurants.

KFC is testing a charbroiled chicken product as well as Extra Tasty Crispy Chicken.

A FEW CHAINS SUCH AS KENTUCKY FRIED CHICKEN ARE FLOURISHING IN THIS COMPETITIVE ENVIRONMENT.

MARKET SEGMENT REPORT

CHICKEN

Mrs. Winner's Chicken & Biscuits is a midscale chicken chain, with a broader menu than fast food.

STREET STRATEGY. However, Chick-fil-A is also in the process of shifting strategies. With its 390 units located predominantly in malls throughout 31 states, the company finds itself running out of traditional locations. "Malls just aren't being put up that quickly," says Don Perry, manager of public relations for the company. "So we've added a 'street strategy' to our mall base."

By the end of last year, Chick-fil-A had opened about 10 street locations in Atlanta, and expects to have another 20 or so open by the end of 1990. Because the street locations are not governed by mall shopping, these units open earlier and close later. Consequently, Chick-fil-A has expanded its previously limited breakfast menu. The resulting increase in breakfast sales has driven the average unit volumes at some freestanding units beyond the $1 million mark.

While street locations appear to be generating healthy sales for the company, Perry says that Chick-fil-A is not about to abandon its traditional mall strategy. "We still hope to open between 15 and 20 mall locations a year," he says. Currently, Chick-fil-A is looking at locations in Chicago, Seattle, and the northeastern states.

The company is also planning to reintroduce its barbecued chicken sandwich later this year. The product, which was recently reformulated, fits well into Chick-fil-A's mall demographics and has been performing well in its test markets, says Perry. The sandwich sells for $1.79.

Chick-fil-A will continue to maintain its previous advertising strategy—mainly radio but with some regional television spots. In-mall promotions will also feature heavily during the coming year.

POPEYES' RECENT ACQUISITION OF CHURCH'S MAKES IT THE NUMBER-TWO CHAIN IN THE SEGMENT.

Another chicken chain that has quietly been logging strong increases is Nashville-based Lee's Famous Recipe Chicken. Owned by Shoney's Inc., the 282-unit chain's systemwide sales totaled $150 million in 1988. Revenues rose to $25.8 million, an increase of 18% over $21.9 million in 1987.

FRANCHISE PUSH. With nearly 50% of its units clustered in Ohio and Kentucky, and virtually all of the rest located in the southeast, Lee's Famous Recipe is "pushing franchising aggressively across the board," says a spokesperson for the chain. By the end of 1990, the chain plans to have nearly 310 company-owned and franchised stores in operation.

The conversion of old units into the newer "farmhouse" design continues, and the company expects to have 80% of all stores converted by the end of the year. Additionally, it is completing the rollout of its newest menu item, Oven-Roasted Chicken. The item is available in two sizes: a quarter chicken for $2.79, and a half chicken for $3.79. Both choices are served with salad and a biscuit. The chain is also testing a barbecued pork ribs item in various markets.

Harry Klapheke, marketing director for Lee's Famous Recipe, attributes the chain's favorable results to strong operations and a clear direction—a reflection of parent company Shoney's highly regarded philosophy. "We're an operations-driven company," he explains. "We're not market-driven. We know who we are, and we run a lean, mean shop here. That's been the key to our success."

While 1988 was not a "terrific" year for Lewisville, TX-based Grandy's, according to Bob Lee, vice president of marketing, sales have strengthened considerably during the first half of 1989. One reason is the chain's continued aggressive marketing stance in the depressed "Oil Belt" states.

"The darkest days are now behind us," Lee says. "When sales got soft, we remained aggressive with our advertising and promotion programs. This year

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Grandy's adds value to the dining experience with its "Grannies," who attend to customers' needs.

Church's plans to broaden its menu with a new biscuit product and french fries.

we're seeing an improving trend and more growth." Systemwide sales for 1988 totaled $184 million, up about 1% from the previous year's figure of $182 million.

With 205 units open in the U.S., Grandy's—which was purchased by Anwar Soliman's American Restaurant Group in 1987—is planning to step up growth both here and abroad. By the end of the year, 20 new company-owned and franchised stores are expected to open in the U.S. Moreover, the company recently signed a master franchise agreement with MBfl Australia Limited to open 250 Grandy's over the next 10 years in Australia, New Zealand, and Papua, New Guinea. The company previously had signed with the MBfl Group to open Grandy's in Thailand, Indonesia, and Singapore. By the end of the year, 60 restaurants are expected to be in operation in Malaysia.

Grandy's has actively been adding new menu items during the past couple of years, says Lee. In 1988, a chicken sandwich and country-fried steak—both priced at $2.49—were added to the menu. The average per-person check is $4.65.

CHARBROILED GOLD. Although El Pollo Loco's chief competitor, El Pollo Asado, is moving into a diffe...t segment, the La Mirada, CA, company still sees gold in the Mexican-style charbroiled chicken niche. "We're still very optimistic," says Bernard Scott, vice president and general manager.

To boost check averages, though, El Pollo Loco—which is owned by TW Services in New York City—rolled out side salads for $1.15 earlier this year, and sales have been healthy, according to Scott. The chain also plans to roll out a chicken sandwich and a frozen pineapple-flavored dessert whip.

With 162 stores open in California, Arizona, New Mexico, Florida, and Texas, El Pollo Loco is looking to expand methodically into other areas. The company intends to slow expansion slightly, however.

As a result, El Pollo Loco plans to open about 55 units a year—25 company-owned and 30 franchised. The company, which currently has six franchised units in Japan, is also planning

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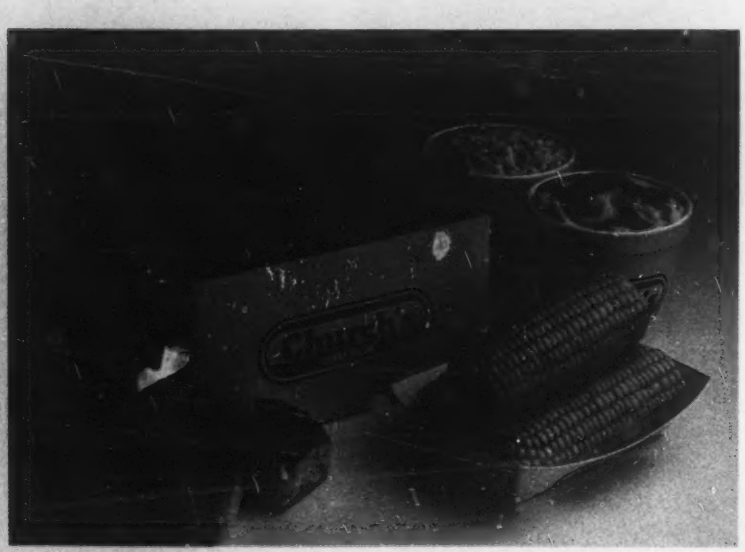

POPEYES' PLANS CALL FOR THE CLOSING OF BETWEEN 150 AND 175 UNDERPERFORMING CHURCH'S UNITS.

MARKET SEGMENT REPORT

CHICKEN

CHARBROILED CHICKEN HAS PROVED SO POPULAR THAT FRIED CHICKEN CHAINS ARE ALL TESTING A NONFRIED PRODUCT

for more international growth. But, again, caution is the watchword. "We want to be aggressive," says Scott, "but we also need to remain solid and not outpace ourselves."

REGIONAL STRENGTH. Other chicken chains have also found that rapid national expansion is not always the best method for building a solid foundation. The goal of Lombard, Ill.-based Brown's Chicken is simply "to become a strong regional," according to president Frank Portillo.

The company has operated predominantly in the Chicago area since its founding by John Brown in 1949. Expansion during the 1960s and 1970s convinced Brown to test the waters elsewhere. "We went a little too fast and with absentee owners," Portillo recalls.

As a result, Brown's decided to buy back about 20 units from its franchisees in 1984, a move that drained the company's finances for a while. Today, however, Brown's has begun to rebound. With about 150 stores operating in the Chicago area, other parts of Illinois, parts of Indiana, and Florida's Broward county, Brown's generated systemwide sales of $81 million in 1988. Portillo is generally optimistic about the chain's prospects for 1989. After experiencing three flat years in a row, he expects sales to rise to $90 million by the end of the year. He anticipates that the average unit volume will increase from $600,000 to as high as $650,000, as well.

Expansion plans call for the addition of eight to 10 stores by the end of 1989. While the company plans to extend its reach into southern Wisconsin, most of the new stores will be opening in

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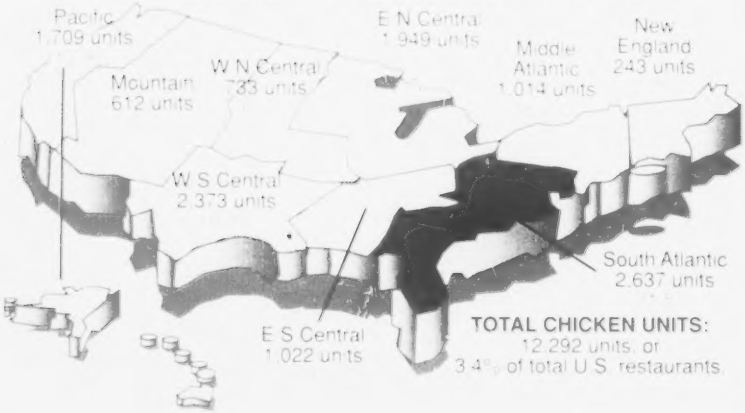
CHICKEN FLIES SOUTH

Distribution of Chicken units by U.S. Census Regions



The charbroiled chain El Pollo Asado is repositioning itself to become more of a Mexican concept.

MARKET SEGMENT REPORT

CHICKEN

Broward county. "But now we're just looking to expand with smaller franchisees who just want to operate up to five stores," Portillo says. Brown's is also pursuing a more vigorous lunchtime trade by increasing the number of chicken sandwiches available.

Another chain that is comfortable with its regional market niche is the Richmond, VA-based Golden Skillet International Inc. Owned by International Dairy Queen, the company operates the majority of its 78 restaurants in Virginia and North Carolina; about 20 units are located in Puerto Rico.

While the average unit volume increased about 2.5% to $350,000 in 1988, systemwide sales remained flat at about $24 million. Vice president Banks Buchanan attributes this to the closing of some underperforming units.

Although the majority of Golden Skillet's business is take-out, restaurants can offer seating for up to 112 persons. A new renovation program, entitled Operation Uplift, is underway.

While the chains continue to slug it

PRIVATELY HELD, NON-FRANCHISED CHICK-FIL-A ENJOYED A DOUBLE-DIGIT SALES INCREASE LAST YEAR.

out among themselves for market share in the chicken segment, some independents are thriving. R.D. Clucker's, which is an upscale dining concept with two restaurants in the Chicago area, could gross up to $5 million this year—90% of which is generated by sales of chicken dishes.

Owned by Reed Merdinger, R.D. Clucker's operates a 180-seat restaurant in Wheeling, IL, and a 90-seat restaurant in Chicago. The two restaurants specialize in Mexican-style charbroiled chicken. Other dishes include chicken chili, a chicken cassoulet, chicken in a pot, and curried chicken salad. The signature charbroiled chicken is available with a choice of sauces, including an Italian pesto sauce, a salsa, and a honey-chutney-curry sauce.

The average per-person check at lunch is about $9, while dinner is closer to $12. While the Wheeling property does little carry-out business, off-prem-

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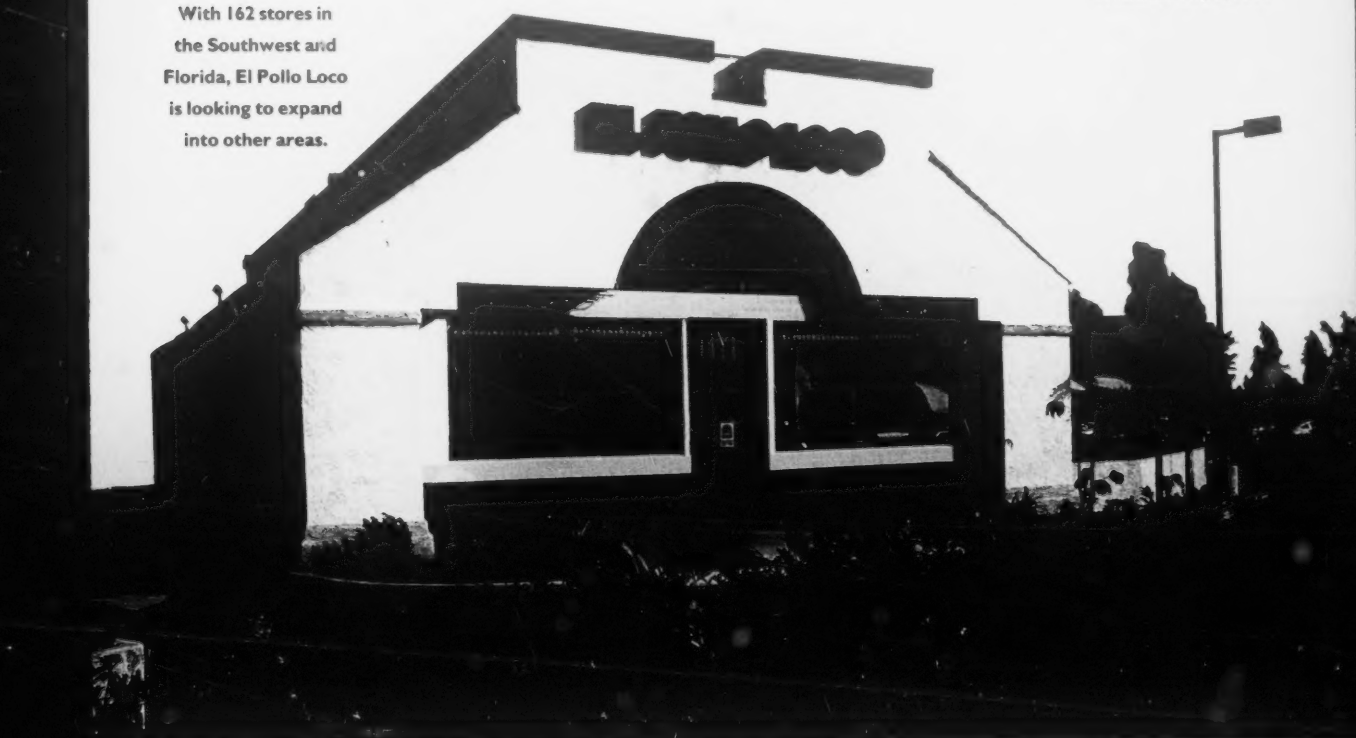
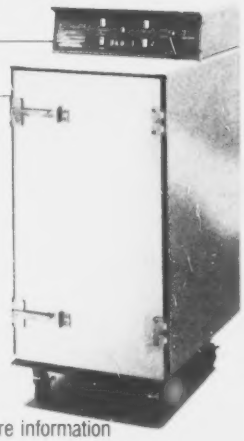


With 162 stores in the Southwest and Florida, El Pollo Loco is looking to expand into other areas.

slow cooking for fast profits



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CHICKEN

ise sales at the Chicago restaurant account for 30% of total sales.

FUTURE PROSPECTS. In the meantime, the near future is almost certain to bring more upheaval to the chicken segment. With nonsegment chains such as McDonald's and Hardee's rolling out new chicken sandwiches with much promotional fanfare, it is likely that chicken sales within the industry should, at least for the short term, be booming.

Furthermore, to help combat those incursions, the larger chains—notably Kentucky Fried Chicken—will probably be bringing their considerable financial muscle to bear in their own product rollouts and national advertising campaigns.

For the smaller chicken chains without a solid, regional identity or signature product, the future is less bright. Squeezed between the large burger and chicken chains, it is likely that the struggle to remain solvent will only become more difficult.

CHICKEN

TOP FIVE CHICKEN CHAINS

Kentucky Fried Chicken
(PepsiCo Inc.) Louisville, KY
1988 Systemwide Sales: $4.9 billion
1988 Units: 7,751

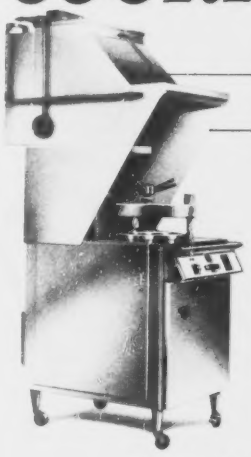
Church's Fried Chicken
(A. Copeland Enterprises) San Antonio, TX
1988 Systemwide Sales: $450 million
1988 Units: 1,368

Popeyes Famous Fried Chicken & Biscuits
(A. Copeland Enterprises) Jefferson, LA
1988 Systemwide Sales: $485 million
1988 Units:720

Chick-fil-A
Atlanta, GA
1988 Systemwide Sales: $232.2 million
1988 Units: 386

Grandy's
(American Restaurant Group) Lewisville, TX
1988 Systemwide Sales: $184 million
1988 Units: 199

anywhere cooking for fast profits



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